

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Mecosta Osceola Transit Authority	County Osceola
Fiscal Year End 9-30-06	Opinion Date 10-26-06	Date Audit Report Submitted to State December 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

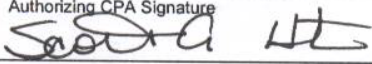
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number 231-775-9789	
Street Address 134 West Harris Street		City Cadillac	State MI
		Zip 49601	
Authorizing CPA Signature 		Printed Name Scott A. Hunter, C.P.A.	License Number 1101009890

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

SEPTEMBER 30, 2006

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

SEPTEMBER 30, 2006

TABLE OF CONTENTS

	<u>PAGES</u>
Independent Auditors' Report	1-2
Management Discussion and Analysis	3-7
Comparative Statement of Net Assets	8
Comparative Statement of Revenues, Expenses and Changes In Net Assets	9
Comparative Statement of Cash Flows	10-11
Notes to Financial Statements	12-18
 <u>SUPPORTING SCHEDULES</u>	
Comparative Schedule of Operating Revenues	19
Schedule of Operating Expenses	20
Comparative Schedule of Nonoperating Revenues	21
Schedule of Federal and State Grants	22
 <u>STATISTICAL TABLES</u>	
Net Eligible Costs Computations of General Operations	23
Vehicle Hours and Passengers (Unaudited)	24
Schedule of Mileage Data (Unaudited)	25

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

Baird, Cotter and Bishop, P.C.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

October 26, 2006

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mecosta Osceola Transit Authority
Big Rapids, Michigan

We have audited the accompanying basic financial statements of the Mecosta Osceola Transit Authority, as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Mecosta Osceola Transit Authority, as of September 30, 2006, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Mecosta Osceola Transit Authority, Big Rapids, Michigan basic financial statements. The accompanying information listed as supporting schedules and statistical tables in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Mecosta Osceola Transit Authority. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

MECOSTA OSCEOLA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2006

This section of the Authority's Comprehensive Annual Financial Report presents management's overview and analysis of the Authority's financial performance for the fiscal year ended September 30, 2006. This section should be read in conjunction with the financial statements which follow this section.

Financial Highlights

- The assets of the Authority exceeded its liabilities at September 30, 2006, by \$832,096. Of this amount, \$697,171 represents net assets which are invested in capital assets.
- The Authority's total net assets increased by \$177,286.
- The Authority remained free of long-term debt during the period.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

MECOSTA OSCEOLA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2006

Financial Analysis

The following is a summary of the Authority's net assets.

Summary Statement of Net Assets

	<u>2006</u>	<u>2005</u>
Assets:		
Current Assets	\$ 214,003	\$ 192,945
Capital Assets (Net)	697,171	573,546
Total Assets	<u>\$ 911,174</u>	<u>\$ 766,491</u>
Liabilities:		
Current Liabilities	\$ 79,078	\$ 111,681
Net Assets:		
Invested in Capital Assets	697,171	573,546
Unrestricted	134,925	81,264
Total Liabilities and Net Assets	<u>\$ 911,174</u>	<u>\$ 766,491</u>

The Authority's net assets increased by \$177,286 in 2006. The following is a summary Statement of Revenues, Expenses and Changes in Net Assets which show how the \$177,286 increase in net assets occurred. Also shown is the change for the year ended September 30, 2005.

Summary Statement of Revenues, Expenses and Changes in Net Assets

	<u>2006</u>	<u>2005</u>
Operating Revenue	\$ 241,097	\$ 222,344
Operating Expense	<u>677,275</u>	<u>804,884</u>
Operating Loss	<u>\$ (436,178)</u>	<u>\$ (582,540)</u>
Nonoperating Revenue		
State Sources	\$ 262,291	\$ 365,106
Federal Sources	79,692	81,685
Other Nonoperating Revenue	217	1,192
Total Nonoperating Revenue	<u>\$ 342,200</u>	<u>\$ 447,983</u>
Income (Loss) Before Capital Contributions	\$ (93,978)	\$ (134,557)
Capital Contributions	<u>271,264</u>	<u>86,293</u>
Changes in Net Assets	<u>\$ 177,286</u>	<u>\$ (48,264)</u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2006

Operating Revenues

<u>REVENUES</u>	2006 AMOUNT	PERCENT OF TOTAL	2005 AMOUNT	PERCENT OF TOTAL	INCREASE (DECREASE) FROM 2005
Operating Revenue	\$ 241,097	41.33%	\$ 222,344	33.17%	\$ 18,753
Interest Income	217	0.04%	1,192	0.18%	(975)
Federal Assistance	79,692	13.66%	81,685	12.19%	(1,993)
State Assistance	262,291	44.97%	365,106	54.46%	(102,815)
Total Revenue	<u>\$ 583,297</u>	<u>100.00%</u>	<u>\$ 670,327</u>	<u>100.00%</u>	<u>\$ (87,030)</u>

The federal reimbursement rate increased to 15% from 12.40% for eligible expenditures. The State reimbursement rate increased from 38.437574823% to 39.2545%.

Operating Expenses

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department - The department describes the major function areas of the Authority and includes:

Operations - Responsible for all on-street services, including operators, dispatchers and schedulers.

Maintenance - Responsible for providing vehicles (including fuel, parts and cleaning) and facilities (upkeep, utilities and rent).

Administration - All other functions including executive direction, planning, marketing, information systems, purchasing and finance.

Depreciation - Estimated pro-ration of the cost of capital assets over the useful life of the asset.

MECOSTA OSCEOLA TRANSIT AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2006

<u>DEPARTMENT</u>	2006 AMOUNT	PERCENT OF TOTAL	2005 AMOUNT	PERCENT OF TOTAL	INCREASE (DECREASE) FROM 2005
Operations	\$ 348,080	51.39%	\$ 482,798	59.98%	\$ (134,718)
Maintenance	79,371	11.72%	72,909	9.06%	6,462
Administration	102,185	15.09%	113,451	14.10%	(11,266)
Depreciation	147,639	21.80%	135,726	16.86%	11,913
Total Expenses	\$ 677,275	100.00%	\$ 804,884	100.00%	\$ (127,609)

Operating Expense by Object - The object is the classification of expenses by type of item. The following table shows expenses for 2006 compared to 2005 by object:

<u>OBJECT</u>	2006 AMOUNT	PERCENT OF TOTAL	2005 AMOUNT	PERCENT OF TOTAL	INCREASE (DECREASE) FROM 2005
Wages and Benefits	\$ 326,547	48.21%	\$ 397,460	49.38%	\$ (70,913)
Services	57,752	8.53%	40,075	4.98%	17,677
Supplies and Materials	85,369	12.60%	92,900	11.54%	(7,531)
Utilities	17,139	2.53%	16,710	2.08%	429
Casualty and Liability	21,976	3.24%	116,120	14.43%	(94,144)
Miscellaneous	20,853	3.08%	5,893	0.73%	14,960
Depreciation	147,639	21.80%	135,726	16.86%	11,913
Total	\$ 677,275	100.00%	\$ 804,884	100.00%	\$ (127,609)

The Authority does not levy a millage. The Authority has decreased expenses such as salaries and benefits in an attempt to operate more efficiently. Casualty and liability insurance expense dropped drastically this year.

Capital Assets

The Authority's investment in capital assets as of September 30, 2006, amounted to \$697,171 net of accumulated depreciation. Capital assets consist of buses, land, buildings, other vehicles, bus and garage equipment and office equipment. Net capital assets increased by \$271,264 during the year. Depreciation expense totaled \$147,639. Major capital asset acquisitions during 2006 included the following:

- Three New Buses \$239,623
- Computer Equipment \$3,117
- Shop Equipment \$306
- Building Improvements \$28,218

MECOSTA OSCEOLA TRANSIT AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2006

Economic Factors and Future Outlook

With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which federal and state operating assistance grants will be funded.

As with other employers, the Authority continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance.

For its property and casualty insurance coverage, the transit is a participant in a public entity risk pool operated by Michigan Transit Pool. In previous years, the Transit incurred additional retrospective insurance premiums charged by the Michigan Transit Pool. The Transit is not expecting any additional retrospective billings. The Michigan Transit Pool is hopeful some of the claims will settle positively, which will reduce the amount due in future periods.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those who have an interest in this agency's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Mecosta Osceola Transit Authority, 18710 16 Mile Road, Big Rapids, Michigan 49307.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF NET ASSETS

SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 91,389	\$ 53,051
Accounts Receivable	17,522	32,969
Due from Other Governments	86,720	90,152
Prepaid Expense	5,266	5,092
Inventory	13,106	11,681
Total Current Assets	<u>\$ 214,003</u>	<u>\$ 192,945</u>
<u>PROPERTY AND EQUIPMENT</u>		
Land and Building	\$ 545,192	\$ 516,974
Buses and Other Vehicles	1,210,179	970,556
Bus and Garage Equipment	61,387	61,081
Office Equipment	151,713	148,596
	<u>\$ 1,968,471</u>	<u>\$ 1,697,207</u>
Less Accumulated Depreciation	1,271,300	1,123,661
Net Property and Equipment	<u>\$ 697,171</u>	<u>\$ 573,546</u>
TOTAL ASSETS	<u><u>\$ 911,174</u></u>	<u><u>\$ 766,491</u></u>
<u>LIABILITIES</u>		
Accounts Payable	\$ 48,466	\$ 88,130
Accrued Liabilities		
Payroll Withholdings	110	1,047
Salaries and Wages	7,587	0
Compensated Absences	22,915	22,504
Total Liabilities	<u>\$ 79,078</u>	<u>\$ 111,681</u>
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 697,171	\$ 573,546
Unrestricted	134,925	81,264
Total Net Assets	<u>\$ 832,096</u>	<u>\$ 654,810</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 911,174</u></u>	<u><u>\$ 766,491</u></u>

The accompanying notes are an integral part of these financial statements.

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>
<u>OPERATING REVENUES</u>	\$ 241,097	\$ 222,344
<u>OPERATING EXPENSES</u>	<u>677,275</u>	<u>804,884</u>
Operating Income (Loss)	\$ (436,178)	\$ (582,540)
<u>NONOPERATING REVENUES</u>	<u>342,200</u>	<u>447,983</u>
Income (Loss) before Capital Contributions	<u>\$ (93,978)</u>	<u>\$ (134,557)</u>
<u>CAPITAL CONTRIBUTIONS</u>		
Federal Financial Assistance	\$ 217,011	\$ 69,034
State of Michigan	<u>54,253</u>	<u>17,259</u>
Total Capital Contributions	<u>\$ 271,264</u>	<u>\$ 86,293</u>
Change in Net Assets	\$ 177,286	\$ (48,264)
<u>TOTAL NET ASSETS - Beginning of Year</u>	<u>654,810</u>	<u>703,074</u>
<u>TOTAL NET ASSETS - End of Year</u>	<u>\$ 832,096</u>	<u>\$ 654,810</u>

The accompanying notes are an integral part of these financial statements.

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 256,544	\$ 202,263
Cash Payments to Suppliers for Goods and Services	(265,032)	(302,312)
Cash Payments to Employees for Services	(298,806)	(327,391)
	<hr/>	<hr/>
Net Cash Provided (Used) by Operating Activities	\$ (307,294)	\$ (427,440)
	<hr/>	<hr/>
Cash Flows from Noncapital Financing Activities:		
Net Project Zero Grant Received	\$ 1,948	\$ 7,381
Net State Operating Grants Received	264,245	253,915
Net Federal Operating Grants Received	79,528	61,937
	<hr/>	<hr/>
Net Cash Provided by Noncapital Financing Activities	\$ 345,721	\$ 323,233
	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	\$ (271,264)	\$ (86,110)
Capital Grants Received	270,958	86,293
	<hr/>	<hr/>
Net Cash Provided (Used) for Capital and Related Financing Activities	\$ (306)	\$ 183
	<hr/>	<hr/>
Cash Flows from Investing Activities:		
Interest Received	\$ 217	\$ 3,044
	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 38,338	\$ (100,980)
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	53,051	154,031
	<hr/>	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 91,389	\$ 53,051
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30,

	<u>2006</u>	<u>2005</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	<u>\$ (436,178)</u>	<u>\$ (582,540)</u>
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation	\$ 147,639	\$ 135,726
(Increase) Decrease in Current Assets		
Accounts Receivable	15,447	(13,210)
Prepaid Expense	(174)	4,003
Inventory	(1,425)	3,001
Increase (Decrease) in Current Liabilities		
Accounts Payable	(39,664)	51,795
Accrued Liabilities	<u>7,061</u>	<u>(26,215)</u>
Total Adjustments	<u>\$ 128,884</u>	<u>\$ 155,100</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ (307,294)</u></u>	<u><u>\$ (427,440)</u></u>

The accompanying notes are an integral part of these financial statements.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Mecosta Osceola Transit Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

The Transit Authority has the capability and authority to provide public transportation to the general public in Mecosta and Osceola Counties.

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the Authority's reporting entity.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. The government-wide financial statements categorize primary activities as either governmental or business type. The Authority's activities are classified as business-type activities.

In the government-wide statement of net assets, the business-type activity is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts - invested in capital assets and unrestricted net assets. The Authority does not have any outstanding debt obligations.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority utilizes one enterprise fund to account for its business-type activities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use the restricted resources first, then unrestricted resources as they are needed.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

D. Assets, Liabilities and Equity

1. Deposits and Investments

The cash and cash equivalents of Mecosta Osceola Transit Authority are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Authority's investment policy is in compliance with state law and authorizes the Authority to invest in investments authorized by Act 20 of the Public Acts of Michigan of 1943, as amended, provided however, any investment in mutual funds authorized by Act 20 shall be limited to securities whose intention is to maintain a net asset value of \$1.00 per share.

2. Capital Assets and Depreciation

Capital assets are defined by the transit authority as assets with an initial, individual cost of more than \$5,000, except for assets purchased with Federal and/or State grants which are capitalized regardless of the amount and an estimated useful life in excess of one year. Contributed property is stated at fair market value at the date of receipt. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Depreciation of all exhaustible fixed assets used by the Enterprise Fund is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20 years
Equipment	2-10 years
Buses	4-10 years

3. Inventory and Prepaid Items

Inventories of motor vehicle fuel and vehicle parts are valued at the lower of cost or market on the first-in, first-out method. Office supplies are not included in inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Compensated Absences

The Authority accrues sick and vacation benefits in the period they are earned. Vacation leave is earned in varying amounts depending on the number of years of service of an employee. At September 30, 2006 and 2005, the sick and vacation benefits accrued was \$22,915 and \$22,504, respectively.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

5. Grants

The Authority receives two distinct types of grants from governmental agencies:

Capital grants are used for capital acquisitions.

Operating grants are used to subsidize day-to-day operations and to meet normal expenses of those operations.

Grant funds used to acquire or construct capital assets are recorded as revenues when the associated capital costs are incurred. Grant funds for operating assistance are recorded as revenues when the associated costs are incurred.

II. DETAILED NOTES ON FUND

A. Property and Equipment

A summary of changes in the Authority's capital assets follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 8,500	\$ 0	\$ 0	\$ 8,500
Capital assets, being depreciated				
Buildings	\$ 508,474	\$ 28,218	\$ 0	\$ 536,692
Buses and Other Vehicles	970,556	239,623	0	1,210,179
Bus and Garage Equipment	61,081	306	0	61,387
Office Equipment	148,596	3,117	0	151,713
Total capital assets, being depreciated	\$ 1,688,707	\$ 271,264	\$ 0	\$ 1,959,971
Less accumulated depreciation for:				
Buildings	\$ 345,683	\$ 28,651	\$ 0	\$ 374,334
Buses and Other Vehicles	594,392	109,133	0	703,525
Bus and Garage Equipment	51,043	4,170	0	55,213
Office Equipment	132,543	5,685	0	138,228
Total accumulated depreciation	\$ 1,123,661	\$ 147,639	\$ 0	\$ 1,271,300
Total capital assets, being depreciated, net	\$ 565,046	\$ 123,625	\$ 0	\$ 688,671
Business-type activities capital assets, net	\$ 573,546	\$ 123,625	\$ 0	\$ 697,171

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

Major classes of property and equipment consist of the following:

	PURCHASED WITH AUTHORITY FUNDS	PURCHASED WITH CAPITAL GRANTS	TOTAL
Land and Buildings	\$ 134,071	\$ 411,121	\$ 545,192
Buses and Other Vehicles	43,203	1,166,976	1,210,179
Bus and Garage Equipment	17,846	43,541	61,387
Office Equipment	23,361	128,352	151,713
	<u>\$ 218,481</u>	<u>\$ 1,749,990</u>	<u>\$1,968,471</u>
Less Accumulated Depreciation	(198,442)	(1,072,858)	(1,271,300)
NET PROPERTY AND EQUIPMENT	<u>\$ 20,039</u>	<u>\$ 677,132</u>	<u>\$ 697,171</u>

Disposition of assets acquired with Federal and State money require prior approval from the Michigan Department of Transportation.

B. Deposits and Investments

Investment rate risk. The Authority will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Authority's cash requirement.

Foreign currency risk. The Authority is not authorized to invest in investments, which have this type of risk.

Credit risk. The Authority will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Authority's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Authority will do business in accordance with the Authority's investment policy.

Concentration of credit risk. The Authority will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of September 30, 2006, the Authority's deposits were \$91,389 and the bank balance of \$107,667, of which was covered by federal depository insurance and \$7,667 was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at year end. Category 1 includes investments that are insured or registered, or securities held by the Authority or the Authority's agent in the Authority's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Authority's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Authority's name. At year end the Authority held no investments.

C. Receivables

Receivables as of year end for the Authority are as follows:

Receivables	
Accounts	\$ 17,522
Intergovernmental	<u>86,720</u>
 Total Receivables	 <u><u>\$104,242</u></u>

The allowance for doubtful accounts is not considered to be material for disclosure.

D. Contingencies

The State and Federal operating assistance contracts are subject to subsequent audit and adjustment by the State of Michigan. The State audits for fiscal years ended September 30, 2003 through 2006, either have not commenced or have not been completed.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

F. Concentration of Credit Risk

For the fiscal year ended September 30, 2006, the Authority was reimbursed by the State of Michigan for 39.2545% of their eligible operating expenditures. The percentage is based on budgeted eligible operating expenses for all transits in the state. This percentage may be recalculated after total eligible expenses for all transits are determined based on audited figures.

G. Risk Management

The Transit is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Transit carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated.

For its property and casualty insurance coverage, the Transit is a participant in a public entity risk pool operated by Michigan Transit Pool which benefits participating transportation authorities. The Transit pays an annual premium for this coverage which provides funds to the Pool to secure specific and excess reinsurance, maintain the Loss Fund, and cover administrative and loss prevention service costs. Should the losses of the Pool, in a given coverage period, exceed the Loss Fund and the aggregate excess reinsurance, the Transit would receive a pro rata assessment for their share of the loss. During the years ended September 30, 2006 and 2005, there was an \$6,497 decrease and a \$84,829 increase in the premium previously charged by the risk pool. Premiums are expensed as incurred while excess reserve distributions are recognized as a contra-expense in the year received in accordance with Michigan Department of Transportation guidelines.

H. Lease Agreement

In April 2006, the Authority entered into a five-year lease agreement for a Xerox copier. The agreement calls for monthly payments of \$69. The lease expense for the year ended September 30, 2006 and 2005 was \$839 and \$969, respectively. Future minimum lease payments are as follows:

2006-2007	\$ 832
2007-2008	822
2008-2009	822
2009-2010	822
2010-2011	548
	<hr/>
	\$ 3,846
	<hr/>

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

COMPARATIVE SCHEDULE OF OPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>
<u>OPERATING REVENUES</u>		
Demand Response (Farebox)	\$ 23,794	\$ 19,837
Contract Services	213,029	194,648
Package Fares	41	68
Non-Transportation Revenue	501	920
Other Revenue	3,732	6,871
	<hr/>	<hr/>
Total Operating Revenues	<u>\$ 241,097</u>	<u>\$ 222,344</u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL SYSTEM
Labor				
Operator's Salaries and Wages	\$ 132,442	\$ 0	\$ 0	\$ 132,442
Other Salaries and Wages	38,578	12,205	41,251	92,034
Fringe Benefits				
FICA	13,472	910	2,862	17,244
Group Insurance	66,486	7,633	2,903	77,022
Workers' Compensation	6,600	67	67	6,734
Uniforms and Other	897	133	41	1,071
Services				
Professional	0	0	17,795	17,795
Maintenance	4,297	34,309	0	38,606
Other Services	0	0	1,351	1,351
Materials and Supplies Consumed				
Fuel and Lubricants	50,716	0	0	50,716
Tires and Tubes	4,963	0	0	4,963
Other Materials and Supplies	0	24,114	5,576	29,690
Utilities and Telephone	7,653	0	9,486	17,139
Casualty and Liability Costs	21,976	0	0	21,976
Miscellaneous Expenses				
Miscellaneous	0	0	2,365	2,365
Advertising/Promotion Media	0	0	16,447	16,447
Dues and Subscriptions	0	0	854	854
Travel and Meetings	0	0	1,187	1,187
Depreciation	137,784	4,170	5,685	147,639
	<u>\$ 485,864</u>	<u>\$ 83,541</u>	<u>\$ 107,870</u>	<u>\$ 677,275</u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

COMPARATIVE SCHEDULE OF NONOPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2006</u>	<u>2005</u>
<u>STATE SOURCES</u>		
State of Michigan Operating Grants		
Local Bus Operating Assistance		
Prior Years Adjustment	\$ 3,895	\$ 36,861
2005 - Mecosta	0	158,743
2005 - Osceola	0	155,538
2006	258,396	0
Project Zero	0	13,964
	<hr/>	<hr/>
Total State Sources	\$ 262,291	\$ 365,106
	<hr/>	<hr/>
<u>FEDERAL SOURCES</u>		
U.S. Department of Transportation		
Operating Grant - Section 5311		
Prior Years Adjustment	\$ 95	\$ (264)
Contract No. 02-0067/Z16 - Mecosta	0	41,698
Contract No. 02-0097/Z8 - Osceola	0	40,251
Contract No. 06-0058/Z1	79,597	0
	<hr/>	<hr/>
Total Federal Sources	\$ 79,692	\$ 81,685
	<hr/>	<hr/>
<u>OTHER</u>		
Interest Income	\$ 217	\$ 1,192
Gain on Sale of Assets	0	0
	<hr/>	<hr/>
Total Other Sources	\$ 217	\$ 1,192
	<hr/>	<hr/>
TOTAL NONOPERATING REVENUES	\$ 342,200	\$ 447,983
	<hr/>	<hr/>

MECOSTA OSCEOLA TRANSIT AUTHORITY

BIG RAPIDS, MICHIGAN

SCHEDULE OF FEDERAL AND STATE GRANTS

FOR THE YEAR ENDED SEPTEMBER 30, 2006

	DUE FROM (TO) STATE 10/1/2005	ADJUSTMENTS	EARNED	RECEIVED NET OF (REPAYMENTS)	DUE FROM (TO) STATE 9/30/2006
<u>OPERATING ASSISTANCE</u>					
State Operating Assistance					
2000 Mecosta	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
2000 Osceola	7,344	0	0	7,344	0
2001 Mecosta	0	0	0	0	0
2001 Osceola	1,117	0	0	1,117	0
2003 Mecosta	3,274	0	0	3,274	0
2003 Osceola	0	0	0	0	0
2004 Mecosta	(291)	102	0	(189)	0
2004 Osceola	8,733	0	0	8,733	0
2005 Mecosta	(7,592)	0	0	0	(7,592)
2005 Osceola	58,609	0	0	26,583	32,026
2006	0	0	258,396	213,590	44,806
	<u>\$ 71,194</u>	<u>\$ 102</u>	<u>\$ 258,396</u>	<u>\$ 260,452</u>	<u>\$ 69,240</u>
Project Zero 2004-2005	\$ 1,948	\$ 0	\$ 0	\$ 1,948	\$ 0
Project Zero 2005-2006	0	0	0	0	0
	<u>\$ 1,948</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,948</u>	<u>\$ 0</u>
Federal Section 5311					
01-0060 Osceola	\$ (95)	\$ 95	\$ 0	\$ 0	\$ 0
02-0067/Z2 Mecosta	0	0	0	0	0
02-0097/Z1 Osceola	0	0	0	0	0
02-0067/Z3 Mecosta	(2,309)	0	0	0	(2,309)
02-0097/Z2 Osceola	(5,681)	0	0	0	(5,681)
02-0067/Z11 Mecosta	232	0	0	0	232
02-0097/Z6 Osceola	7	0	0	0	7
02-0067/Z16 Mecosta	14,130	0	0	9,367	4,763
02-0097/Z8 Osceola	10,726	0	0	5,167	5,559
06-0058/Z1	0	0	79,597	64,994	14,603
	<u>\$ 17,010</u>	<u>\$ 95</u>	<u>\$ 79,597</u>	<u>\$ 79,528</u>	<u>\$ 17,174</u>
Total Operating	<u>\$ 90,152</u>	<u>\$ 197</u>	<u>\$ 337,993</u>	<u>\$ 341,928</u>	<u>\$ 86,414</u>
Capital Grant					
02-0097/Z7	\$ 0	\$ 0	\$ 3,117	\$ 3,117	\$ 0
02-0067/Z13	0	0	28,218	28,218	0
02-0067/Z12	0	0	1,492	1,492	0
02-0058/Z3	0	0	306	0	306
06-0058/Z4	0	0	238,131	238,131	0
	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 271,264</u>	<u>\$ 270,958</u>	<u>\$ 306</u>
TOTAL FEDERAL STATE GRANTS	<u>\$ 90,152</u>	<u>\$ 197</u>	<u>\$ 609,257</u>	<u>\$ 612,886</u>	<u>\$ 86,720</u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	FEDERAL - SECTION 5311 06-0058Z1	STATE OPERATING
Operating Expenses		
Labor	\$ 224,476	\$ 224,476
Fringe Benefits	102,071	102,071
Services	57,752	57,752
Materials and Supplies	85,369	85,369
Utilities	17,139	17,139
Casualty and Liability Costs	21,976	21,976
Miscellaneous Expenses	20,853	20,853
Depreciation	147,639	147,639
	<hr/>	<hr/>
Total Expense	\$ 677,275	\$ 677,275
	<hr/>	<hr/>
Less Ineligible Expenses		
Depreciation	\$ 139,264	\$ 139,264
Association Dues	28	28
Audit Fees	6,950	0
	<hr/>	<hr/>
Total Ineligible Expenses	\$ 146,242	\$ 139,292
	<hr/>	<hr/>
Eligible Expenses	\$ 531,033	\$ 537,983
	<hr/>	<hr/>
Less Project Revenue		
Package Hauling	\$ 41	\$ 41
Propane Sales	349	349
	<hr/>	<hr/>
Total Project Revenue	\$ 390	\$ 390
	<hr/>	<hr/>
NET ELIGIBLE EXPENSES	\$ 530,643	\$ 537,593
	<hr/>	<hr/>
Federal		
Section 5311		
Reimbursement (15.00%)	\$ 79,597	
	<hr/>	
State Statutory Operating Assistance		
39.2545% of Net Eligible		
Expenses		\$ 211,029
		<hr/>
But at Least a Minimum of Its:		
1997 Floor		\$ 258,396
		<hr/>

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

VEHICLE HOURS AND PASSENGERS
YEAR ENDED SEPTEMBER 30, 2006

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2005

(UNAUDITED)

	<u>2006</u>	<u>2005</u>
<u>VEHICLE HOURS</u>		
First Quarter	2,434	2,606
Second Quarter	2,466	2,922
Third Quarter	2,481	2,363
Fourth Quarter	<u>2,280</u>	<u>2,204</u>
Total	<u><u>9,661</u></u>	<u><u>10,095</u></u>

	<u>2006</u>				<u>2005</u>
	REGULAR PASSENGER	SENIOR PASSENGER	HANDICAPPED PASSENGER	TOTAL	TOTAL
<u>PASSENGERS</u>					
First Quarter	2,208	53	10,044	12,305	12,151
Second Quarter	2,089	23	10,245	12,357	12,554
Third Quarter	1,780	44	11,582	13,406	12,497
Fourth Quarter	<u>813</u>	<u>56</u>	<u>12,070</u>	<u>12,939</u>	<u>11,158</u>
Total	<u><u>6,890</u></u>	<u><u>176</u></u>	<u><u>43,941</u></u>	<u><u>51,007</u></u>	<u><u>48,360</u></u>

MECOSTA OSCEOLA TRANSIT AUTHORITY
BIG RAPIDS, MICHIGAN

MILEAGE DATA
FOR THE YEAR ENDED SEPTEMBER 30, 2006

(Unaudited)

As required by Michigan Department of Transportation, the following schedule details the mileage data for the year ended September 30, 2006. This supplemental data was not audited and, accordingly, we do not express an opinion on it. However, the methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

<u>DEMAND-RESPONSE</u>	<u>TOTAL PUBLIC TRANSPORTATION MILEAGE</u>
Quarter Ended:	
December 31, 2005	62,853
March 31, 2006	63,258
June 30, 2006	63,086
September 30, 2006	<u>60,210</u>
 TOTAL	 <u><u>249,407</u></u>